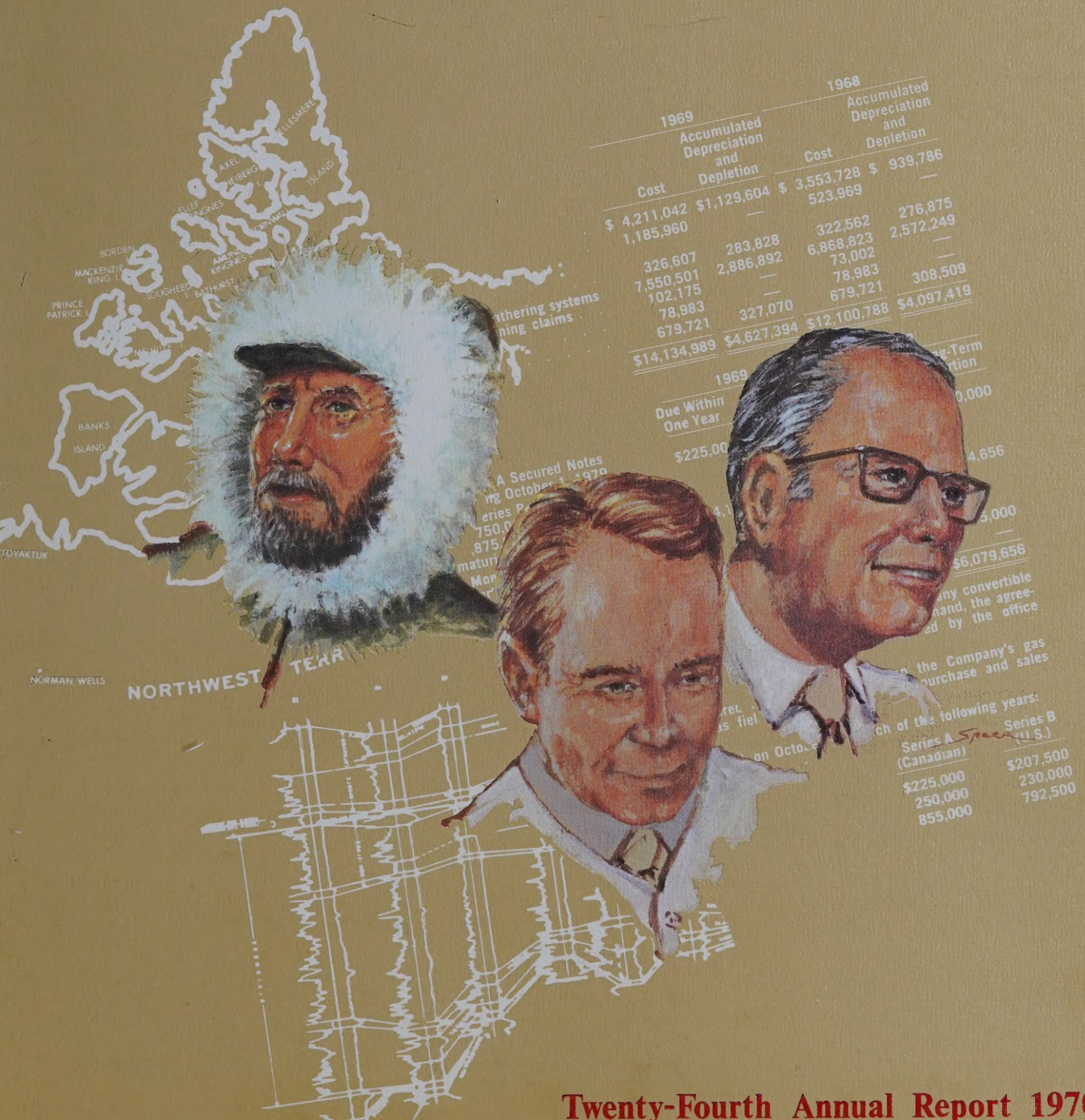
AR18

NORTH CANADIAN

OILS LIMITED □ A NATURAL RESOURCE COMPANY



Twenty-Fourth Annual Report 1970

The cover painting depicts symbolically the men and sciences involved in the discovery and the production of natural resources in which North Canadian Oils is engaged.

Throughout the report you see some of the actual people of North Canadian, photographed while at work in the Company's Calgary headquarters.

Annual Meeting

The 1971 annual meeting of shareholders will be held Thursday, April 29th, 1971 at 1:30 p.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

COMPARATIVE HIGHLIGHTS – 1970/1969

	1970	1969
Gross Revenue (Before Royalty)	$ 4,619,005	$ 4,183,662
Cash Flow (after cost of product, operating, administrative, and interest expenses)	$ 2,583,933	$ 2,315,501
Cash Flow per Share	46c	42c
Net Income	$ 1,447,549	$ 1,501,984
Net Income per Share (after provision for preferred share dividend)	24c	24c
Extraordinary Gain	—	$ 8,471,758
Total Profit for the Year	$ 1,447,549	$ 9,973,742
Additions to Plant, Property and Equipment	$ 1,617,653	$ 2,049,726
Shareholder Equity - December 31st	$19,540,807	$18,351,973
Natural Gas Sales - billion cubic feet	16.4	14.4
Oil Sales - barrels	56,600	54,000

Estimated Remaining Proven Recoverable Reserves — 1 January, 1971:

Gas — billion cubic feet	430
Oil — barrels	758,000

NORTH CANADIAN OILS LIMITED

A NATURAL RESOURCE COMPANY

INTERIM REPORT 1970

FOR THE SIX MONTHS ENDED JUNE 30,

AR18

NORTH CANADIAN OILS LIMITED

Statement of Income

for the six months ended June 30, 1970

(with 1969 figures restated for comparative purposes)

	1970	1969
Revenue		
Sale of gas and oil	$1,783,000	$1,595,000
Investment interest	496,000	459,000
Building rental and miscellaneous	72,000	44,000
	$2,351,000	$2,098,000
Expenses		
Operating	658,000	628,000
Administration and general	97,000	113,000
Interest	215,000	185,000
	970,000	926,000
Depreciation and Depletion	1,381,000	1,172,000
	275,000	250,000
	1,106,000	922,000
Income before Income Taxes and Extraordinary Item		
Provision for Income Taxes		
Current	145,000	67,000
Deferred	50,000	45,000
	195,000	112,000
Net Income for period before Extraordinary Item	911,000	810,000
Gain on Sale of Investment		8,472,000
Net Income for Period	$ 911,000	$9,282,000

The common shares of North Canadian Oils are exempt from the U.S. interest equalization tax. They are listed for trading on the American and Toronto stock exchanges

ALCRAFT - CALGARY
LITHOGRAPHED IN CANADA

To The Shareholders

Revenue and earnings from the Company's operations and investments in the first six months of 1970 are approximately 12% higher than the record figures reported for the same period last year. Unaudited net income to June 30th was $911,000 (16c per share) as compared to $810,000 (14c per share) in 1969. Cash flow for the period was $1,236,000 (22c per share) compared to $1,105,000 (20c per share). The 1969 figures above are restated for purposes of comparison, and exclude an extraordinary gain of $8.47 million realized by the Company on the sale of an investment.

A major contributor to the increase in earnings was a 20% growth in natural gas sales, which averaged 47.4 million cubic feet a day for the first half of the year. With completion of the development of North Canadian's gas reserves in the Buffalo/Atlee area scheduled for September 1st, a continued improvement in sales is foreseen for the remaining six months.

The first of four exploratory wells to be drilled on lands held by North Canadian Oils in the Northwest Territories was abandoned on May 30th. Although there were no hydrocarbon showings reported, a sedimentary section of considerable interest was encountered which contained thick zones of effective porosity. Significant regional structure was indicated and there was evidence of good formation deliverability. The second well will be started in the fall following "freeze up", which will enable movement of the drilling rig to the next location, a distance of approximately 60 miles. The permit area, in which North Canadian owns a 25% undivided interest, covers approximately 2.7 million acres in the heart of the Mackenzie River Basin.

Work is progressing favourably on the Company's silver/lead mineral claims in southeastern British Columbia as well as on its uranium prospect in the Lake Athabasca area of northern Alberta. Ore samples recovered from last year's trenching program on the British Columbia claims, which we were unable to recover due to early snow falls, have now been assayed and reveal unexpectedly high values. Further trenching and sampling is being conducted.

We are pleased to announce the appointment on May 1 of Mr. J. W. Dowden as Vice-President, Exploration. Mr. Dowden, formerly with Monsanto Oils Limited, brings 20 years of exploration experience to North Canadian Oils, and will be instrumental in the planning and execution of the Company's expanding exploration program.

Robert F Reuben

July 24, 1970 — President

Statement of Source and Use of Funds

for the six months ended June 30, 1970

(with 1969 figures restated for comparative purposes)

	1970	1969
Source of Funds		
Operations		
Net income for the period	$ 911,000	$ 810,000
Add items not involving a current outlay of funds:		
Depreciation and depletion	275,000	250,000
Deferred Income Taxes	50,000	45,000
Funds provided from operations	1,236,000	1,105,000
Reduction of other assets	27,000	—
Received from shareholder	—	21,000
	$1,263,000	$1,126,000
Use of Funds		
Additions to property, plant and equipment	699,000	1,323,000
Reduction of long term debt	4,000	10,000
Redemption of preferred shares	98,000	—
Preferred share dividend	66,000	69,000
Extraordinary expense re sale of investment	—	138,000
	$ 867,000	$1,540,000
Increase (decrease) in working capital	396,000	(414,000)
Working capital at January 1	877,000	275,000
Working capital at June 30	$1,273,000	$ (139,000)

SEE OVER FOR STATEMENT OF INCOME

NORTH CANADIAN OILS LIMITED

Capital

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share
Issued 5,586,665 Shares
70,000 Preferred Shares having a Par Value of $50.00 per Share
Issued 46,522 Shares

Common Share Registrars

GUARANTY TRUST COMPANY OF CANADA LIMITED Calgary, Alberta
THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . New York City, U.S.A.
THE BANK OF CALIFORNIA, N.A. Los Angeles, California, U.S.A.

Common Share Transfer Agents

GUARANTY TRUST COMPANY OF CANADA LIMITED . . . Calgary and Toronto
THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . New York City, U.S.A.
THE BANK OF CALIFORNIA, N.A. Los Angeles, California, U.S.A.

Preferred Share Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA LIMITED Calgary and Toronto

Common Shares Listed

TORONTO STOCK EXCHANGE
AMERICAN STOCK EXCHANGE
PACIFIC COAST STOCK EXCHANGE

Preferred Shares Listed

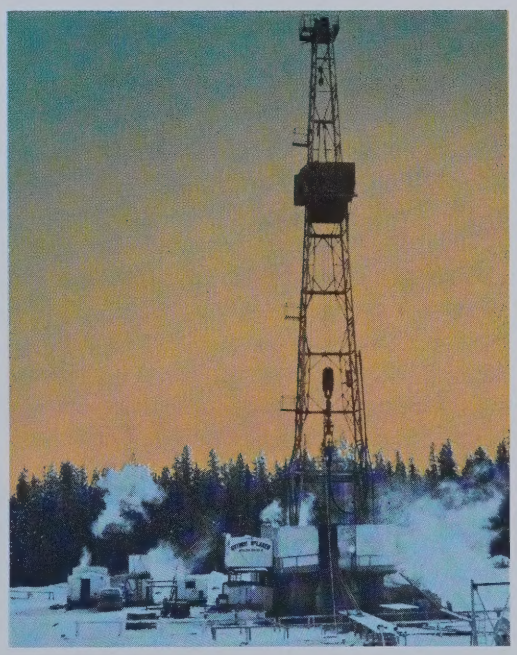
TORONTO STOCK EXCHANGE Toronto

Auditors

PEAT, MARWICK, MITCHELL & CO. Calgary, Alberta

Head Office

640 SEVENTH AVENUE SOUTHWEST Calgary 2, Alberta



DIRECTORS

PAUL H. AUSTIN
President,
Mercantile Bank of Canada,
Montreal, Quebec

C. M. HAMILTON
Consultant,
Calgary, Alberta

MARSHALL A. JACOBS
Lawyer,
New York, New York

ROSS A. MacKIMMIE, Q.C.
Lawyer,
Calgary, Alberta

CLIVE H. REID
Calgary, Alberta

*FRANK E. RUBEN
Calgary, Alberta

ROBERT F. RUBEN
Calgary, Alberta

OFFICERS

*FRANK E. RUBEN
Chairman of the Board and
Chief Executive Officer

ROBERT F. RUBEN
President

JAMES W. DOWDEN
Vice-President, Exploration

NATHAN GOODMAN
Vice-President, Production

CLIVE H. REID
Secretary-Treasurer

* Retired 31st December, 1970

The trading in the common shares of North Canadian is exempt from the United States interest equalization tax applicable to the purchase of foreign securities by United States citizens.

Robert F. Ruben, President



To the Shareholders:

We are pleased to present herewith the 24th Annual Report of North Canadian Oils. 1970 was a year of continued progress for the Company. Total income in 1970 was $4,619,005, an increase of 9% over the total income reported in 1969. Cash flow was $2,583,933, or 46c per share, an improvement of 10% over the preceding year's equivalent figure of $2,315,501 or 42c per share. A higher than anticipated year-end provision for current and deferred income tax held net income to $1,447,509 as compared to a record net income in 1969 of $1,501,984. Net earnings per share however were unchanged at 24c because of lower preferred share dividend payments due to a reduction in the number of outstanding preferred shares.

North Canadian's income is derived from three principal sources. Approximately 39% is from the sale of natural gas and crude oil production, 35% from operation of the Wabamun-Hinton pipeline and 24% from interest earned on the Company's investments which principally consist of the $15 million of St. Regis 6% convertible debentures received from the sale of the Company's holding in North Western Pulp & Power.

Gas production from Company-owned reserves was up 22% in 1970. For the year, combined daily deliveries to the Saskatchewan Power Corporation and TransCanada PipeLines averaged 32.6 million cubic feet with peak deliveries as high as 50 million cubic feet a day. This compares to average daily deliveries of 27 million cubic feet in 1969 and 18.8 million cubic feet in 1968.



Clive Reid, Secretary-Treasurer

Sue Jones, Receptionist



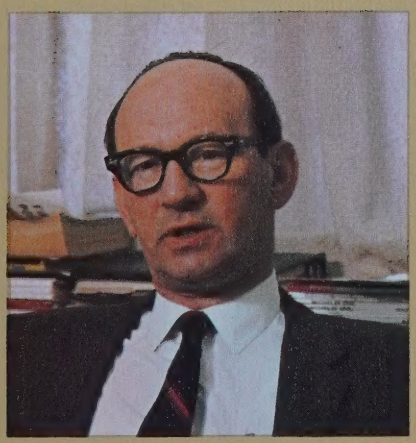
Continued growth in gas sales is projected for 1971.

The Company is presently operating a total of 203 producing gas wells on its various properties. Seven more wells have been drilled but not yet placed on production. An additional 79 proven locations are owned by the Company and available for future drilling. As of January 1, 1971, the Company's remaining proven recoverable gas reserves are estimated at 430 billion cubic feet.

Gas sales from the Wabamun-Hinton pipeline remained relatively stable in 1970. The line, which extends along a 136 mile route in central Alberta, was constructed by North Canadian in 1956 to supply the fuel requirements of North Western Pulp & Power at Hinton. The pipeline also sells gas to other industrial consumers and to the utility companies serving the towns and villages in the area. The North Western fuel contract which runs until 1983 was not affected by North Canadian's sale of its equity in the pulp company.

Crude oil production in 1970 totalled 56,600 barrels, an increase of approximately 5%. The Company's net remaining recoverable reserves, located for the most part in the Joarcam Field of central Alberta, are estimated at 758,000 barrels. In view of the growing demand and higher wellhead prices for Canadian crude, increased emphasis is being given the search for oil in the Company's expanding exploration program.

During the year North Canadian drilled 27 successful gas development wells and placed 26 of them on production. The Company had a 25% working interest in an exploratory abandonment in the Northwest Territories and, in Alberta, an exploratory dry hole was drilled on North Canadian land at no cost to the Company. Also in Alberta, the Company purchased 5,120 acres of undeveloped land and 2,560 acres of developed land with four shut-in gas wells, two of which have been placed on production.



Nate Goodman, V.P. - Production

Ben Cook, Mgr. Lands and
Jim Dowden, V.P. - Exploration



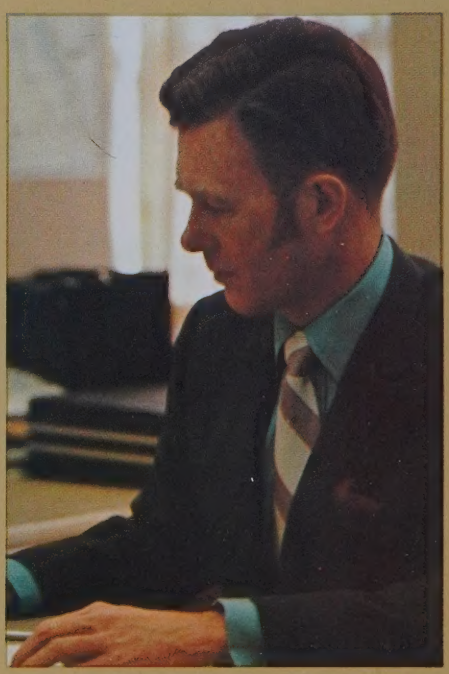
An integral part of North Canadian's oil and gas exploration program is the accumulation of undeveloped land holdings in selected areas. The Company recently purchased a one-half interest in 4,800 acres of leases in three prospect areas in Alberta and expects to add to these properties during the coming months. North Canadian is participating in two exploratory wells currently drilling. The first is a 25% working interest in a Nisku test northeast of Meekwap Oil Field which has been one of Alberta's most active areas this winter. North Canadian also has a 50% working interest in a Viking test at Corbett in central Alberta.

A thorough exploration program is being conducted on the Company's holdings in the Mackenzie River Basin of the Northwest Territories. Permits covering 2.8 million acres between Norman Wells and Inuvik are held jointly by North Canadian, Mobil Oil Canada, Sun Oil Company, and Inexco Oil Company, each holding a 25% undivided interest. This winter, the group conducted 130 miles of new seismic exploration from which the data proved to be superior to the older seismic data on the permits. A fourth exploratory well, located on the basis of the new seismic information, is now drilling toward a deeper projected depth than the previous wells in the drilling program.

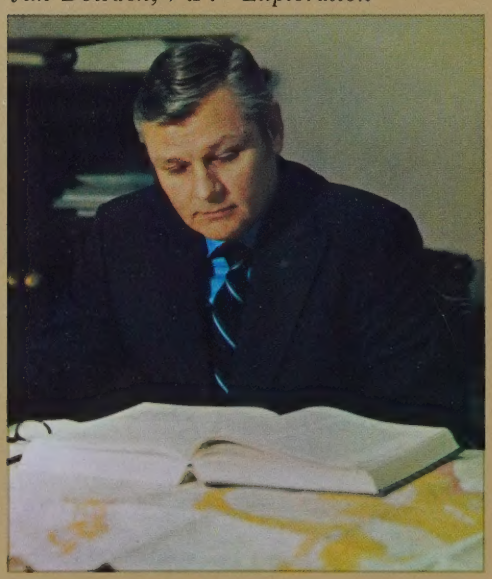
During the summer season, the Company conducted a detailed surface survey of interesting radiation areas outlined from the previous airborne radiometric survey of 186,000 acres of mineral permits in the Lake Athabasca area of northeastern Alberta. The results of this survey, including chemical assays of samples, enabled the Company to select approximately 3,360 acres of quartz mineral leases covering two acres which show a low-grade but interesting uranium content. Further evaluation of the mineral leases will be held in abeyance pending an improvement in the demand for uranium.

No on sight work is planned in 1971 on the Company's silver/lead mineral prospect in the Coppercrown Creek area of British Columbia. Despite the discovery last summer of a number of new

Keith Miller, Mgr. Gas Transmission



Jim Dowden, V.P. - Exploration



mineralized showings, it is felt that pending further study, additional expenditures on the 7,000-foot high group of claims is not warranted at this time. Because of work performed to date, claims covering the principal areas of interest are in good standing for 10 years. North Canadian owns a 50% interest in the claims which total 85 in number.

North Canadian has joined with Asamera Oil Corporation Ltd. in the formation of Ocean Resources Limited. Owned 40% each by North Canadian and Asamera, and 20% by private interests, the new company will concentrate on seeking foreign concessions of an unusual or high risk nature which offer the potential of substantial reward. Two million dollars in operating funds have been advanced Ocean Resources by its principal shareholders, North Canadian and Asamera.

Two changes occurred in the Company's directorship in 1970. In October, the Board regretfully accepted the resignation of Mr. Donald G. Ross of Toronto. Mr. Ross had served as a Director of North Canadian Oils since 1955. He was replaced on the Board by Mr. Paul Austin of Montreal, President of the Mercantile Bank of Canada. Effective at the close of the year, Mr. Frank E. Ruben resigned as a Director coincident with his retirement from the Company as Chief Executive Officer and Chairman of the Board. Mr. Ruben, founder of the Company, served as its senior executive and as Director since North Canadian's incorporation in 1947.

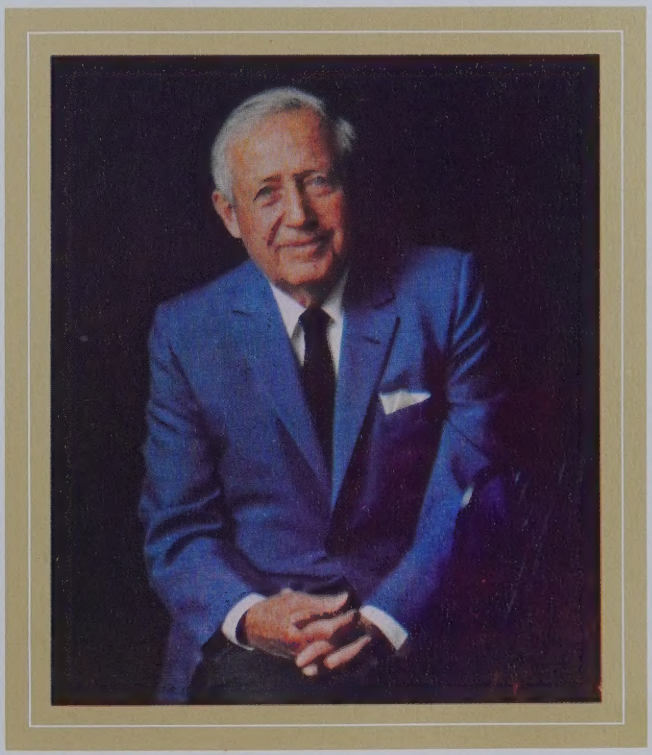
Although it does not appear on the corporate balance sheet, the most important asset to any company is its people. During the past year there have been significant changes and additions to North Canadian's key personnel which will materially improve efficiency of operations and provide the needed additional administrative capacity for the Company's continued growth. Your management and Directors are sincerely appreciative of the continued high standard of performance demonstrated by the Company's employees. It is because of them that North Canadian looks to the future with confidence and optimism.

Respectfully submitted on behalf of the Board of Directors.

Robert F. Ruben

ROBERT F. RUBEN
President

March 5, 1971



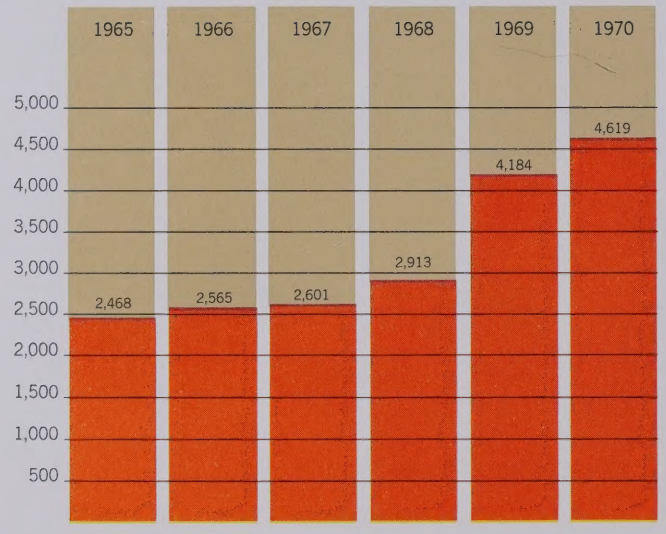
It is with regret that we inform you of the retirement of Mr. Frank E. Ruben as Chairman and Chief Executive Officer, effective December 31st, 1970.

Since founding North Canadian in 1947 Mr. Ruben has played a vital role in the growth and development of your Company, and today enjoys a fine reputation as one of Canada's pioneer oilmen.

We are pleased that he has consented to make his experience and advice available to us in a consultative capacity, and on your behalf we express our sincere appreciation to him for his many years of service to the Company.

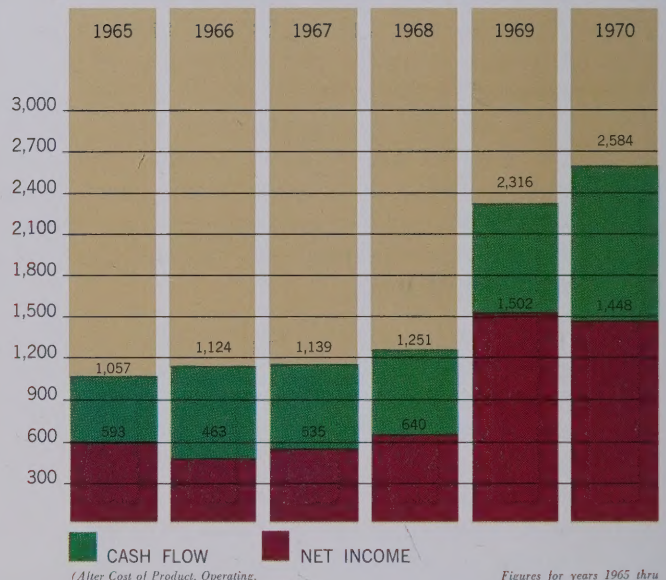
GROSS REVENUES

Thousands of Dollars



NET INCOME AND CASH FLOW

Thousands of Dollars

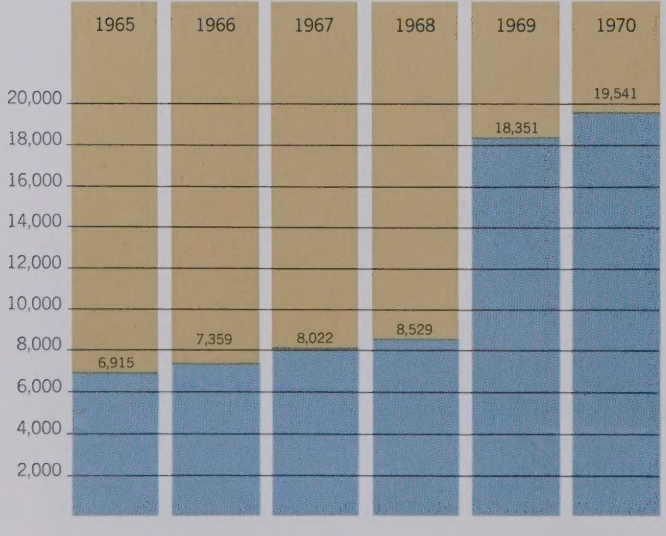


(After Cost of Product, Operating, Administrative, and Interest Expenses)

Figures for years 1965 thru 1968 restated for comparative purposes.

SHAREHOLDERS' EQUITY

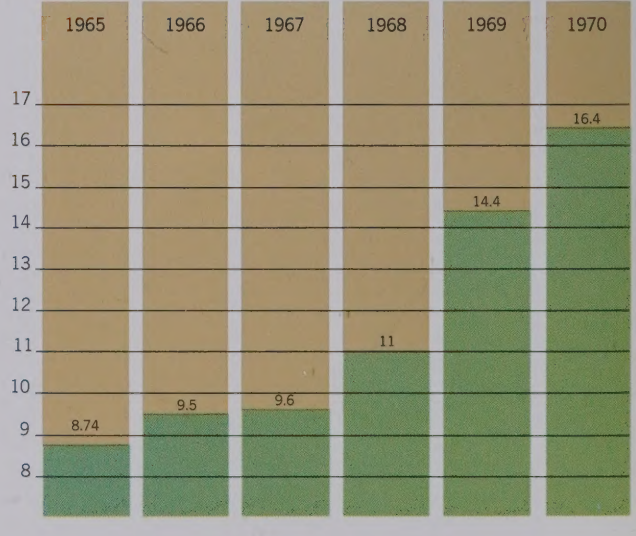
Thousands of Dollars



Figures for years 1965 thru 1968 restated for comparative purposes.

NATURAL GAS SALES

Billions of Cubic Feet



Industry's exploration interest in the Canadian North continues at a high level. North Canadian's holdings in lands covering 2.8 million acres are well situated in the Mackenzie River Basin between the proven oil potential of the Tuktoyaktuk Peninsula and the old oil producing area of Norman Wells where recent drilling indicates a possible new oil discovery.




NORTHWES
Hinton Pipeline
Alexander Gas Field
PICKUP POINT
6th MERIDIAN
Hinton
DELIVERY POINT
Edson
Edson Gas Field
Wabamun
EDMONTON
Pembina Oil Field
Leduc Oil Field
5th MERIDIAN
Jasper
Ft. Nelson
ZAMA LAKE
RAINBOW
ALBE
PACIFIC OCEAN
BRITISH COLUMBIA
St. John
Lesser Slave Lake
KAYBOB
SWAN HILLS
Hinton
EDSON
LEDUC
Edm
PEMBINA
JOARCAM
WILLESDEN GREEN
THREE HILLS CREEK
Calgary
Invermere
TURNER VALLEY
NORTH CANADIAN PROPERTIES AND INTERESTS
1970
Drilling
Mining Claims
Gas Properties
Undeveloped Acreage
Hinton Pipeline
Oil Production
Major Gas Fields
Major Oil Fields


ERRITORIES
Uranium City
Lake Athabasca
Ft. Chipewyan
ATHABASCA OIL SANDS
Manito Lake
PROVOST
Red Deer River
BUFFALO
CAVENDISH
COMPRESSOR STATION
ALBERTA GAS TRUNK LINE
BUFFALO/ATLEE
Company owned lands
ALTA.
SASK.
COMPRESSOR STATION
HATTON
GAS FIELD
COMPRESSOR STATION
MEDICINE HAT
GAS FIELD
dicine Hat

NORTH CANADIAN OILS LIMITED

BALANCE SHEET

December 31, 1970

(With comparative figures for 1969)

ASSETS

	1970	1969
CURRENT ASSETS:		
Cash	$ 152,055	$ 74,194
Deposit receipts	700,000	700,000
Accrued interest receivable	416,378	384,541
Accounts receivable	454,604	443,747
Inventory of pipe, at cost	6,198	58,568
Prepaid expenses	30,263	25,996
Total current assets	1,759,498	1,687,046
6% St. Regis Paper Company notes receivable, due January 1, 1984 (no quoted market value) (Note 2)	15,000,000	15,000,000
INVESTMENT in and advances to a non-controlled company, at cost (Note 3)	1,021,375	—
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 4):		
At cost	15,733,500	14,134,989
Accumulated depreciation and depletion	5,212,812	4,627,394
	10,520,688	9,507,595
OTHER ASSETS, at cost	136,149	167,100
	$28,437,710	$26,361,741

Approved on behalf of the Board:

Robert F. Reburn, Director

Chas. H. Reid, Director

See accompanying notes to financial statements.

LIABILITIES

	1970	1969
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 340,444	$ 289,862
Income taxes payable	280,800	50,375
Long-term debt due within one year	454,640	469,100
Total current liabilities	1,075,884	809,337
LONG-TERM DEBT (Note 5)	7,149,019	6,610,431
DEFERRED INCOME TAXES (Note 6)	672,000	590,000
SHAREHOLDERS' EQUITY:		
Capital stock:		
5½% Cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares, issued 46,522 shares (1969 - 49,101 shares) (Note 7)	2,326,100	2,455,050
Common shares, par value $.25 each; authorized 7,500,000 shares, issued 5,586,665 shares (Note 8)	1,396,666	1,396,666
	3,722,766	3,851,716
Capital redemption reserve fund	1,173,900	1,044,950
Contributed surplus	1,665,201	1,665,201
Retained earnings	12,978,940	11,790,106
	19,540,807	18,351,973
Commitment (Note 3)		
	$28,437,710	$26,361,741

NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

Year ended December 31, 1970

(With comparative figures for 1969)

	1970	1969
REVENUE:		
Gross operating revenues	$3,443,992	$3,162,127
Less royalties	177,947	129,403
	3,266,045	3,032,724
Interest income	1,011,987	920,020
Building revenue and miscellaneous income	137,278	101,515
Gain on foreign exchange	25,748	—
	4,441,058	4,054,259
EXPENSES:		
Operating	1,207,194	1,112,220
Administrative (Note 9)	197,505	261,861
Interest on long-term debt	452,426	364,677
Abandoned leases	10,324	—
Depreciation	369,993	348,698
Depletion	221,677	189,819
	2,459,119	2,277,275
Income before income taxes and extraordinary item	1,981,939	1,776,984
INCOME TAXES (Note 6):		
Current	452,390	185,000
Deferred	82,000	90,000
	534,390	275,000
Net income before extraordinary item	1,447,549	1,501,984
EXTRAORDINARY ITEM:		
Gain on sale of investment, less expenses thereon	—	8,471,758
NET INCOME	$1,447,549	$9,973,742
Net earnings per common share (after preferred dividends):		
Net income before extraordinary item	$.24	.24
Extraordinary item	—	1.52
NET INCOME	$.24	1.76

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1970

(With comparative figures for 1969)

	1970	1969
BALANCE, BEGINNING OF YEAR	$11,790,106	$ 1,987,769
Add net income for the year	1,447,549	9,973,742
	13,237,655	11,961,511
Deduct:		
Dividends on preferred shares	129,765	136,405
Transfer to capital redemption reserve fund	128,950	35,000
	258,715	171,405
BALANCE, END OF YEAR	$12,978,940	$11,790,106

STATEMENT OF CAPITAL REDEMPTION RESERVE FUND

Year ended December 31, 1970

(With comparative figures for 1969)

	1970	1969
BALANCE, BEGINNING OF YEAR	$ 1,044,950	$ 1,009,950
Transfer from retained earnings	128,950	35,000
BALANCE, END OF YEAR	$ 1,173,900	$ 1,044,950

See accompanying notes to financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS

Year ended December 31, 1970

(With comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS:		
Net income	$1,447,549	$9,973,742
Add (deduct) non-cash items included in net income:		
Depreciation and depletion	591,670	538,517
Deferred income taxes	82,000	90,000
Abandoned leases	10,324	—
Gain on sale of investment	—	(8,471,758)
Funds provided from operations	2,131,543	2,130,501
Bank loan	1,000,000	1,000,000
Sale of fixed assets	2,566	6,983
Reduction of other assets	30,951	41,576
Received from a shareholder	—	20,924
Total funds provided	3,165,060	3,199,984
USE OF FUNDS:		
Expenditures for property, plant and equipment	1,617,653	2,049,726
Investment in and advances to a non-controlled company	1,021,375	—
Reduction of long-term debt	461,412	469,225
Dividends on preferred shares	129,765	136,405
Redemption of preferred shares	128,950	35,000
Expenditures on sale of investment	—	138,242
Total funds used	3,359,155	2,828,598
INCREASE (DECREASE) IN WORKING CAPITAL	(194,095)	371,386
Working capital, beginning of year	877,709	506,323
WORKING CAPITAL, END OF YEAR	$ 683,614	$ 877,709

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1970

1. ACCOUNTING PRINCIPLES:

The Company follows the practice of capitalizing all leasehold acquisition, exploration and development costs and lease rentals on undeveloped properties. Costs pertaining to areas which are not productive or contiguous to productive areas are written off against income.

Natural gas producing properties and related development costs, together with the cost of the pipeline and gas gathering system, are written off on a straight line basis over the life of existing gas contracts. The costs of successful petroleum producing properties and development, other than equipment costs, are written off by depletion charges on the unit of production method. Equipment costs and the office building are depreciated over the estimated useful lives of the assets.

2. 6% ST. REGIS PAPER COMPANY NOTES RECEIVABLE:

The notes may be converted into St. Regis common stock at $55 (U.S.) per share on or before January 2, 1974 and at $57 (U.S.) per share until January 2, 1976. The quoted market value of St. Regis common shares was approximately $40 (U.S.) at December 31, 1970 (1969 - $34 U.S.).

3. INVESTMENT IN AND ADVANCES TO A NON-CONTROLLED COMPANY:

Pursuant to an agreement, entered into during the year, North Canadian Oils Limited joined with others in the formation of a company for the purpose of participating in offshore exploration ventures. North Canadian Oils Limited is obligated, under the terms of the agreement, to:

(a) subscribe and pay for, when called, up to 40,000 shares at $1 per share of the company so formed, and

(b) advance $1,000,000 (U.S.) to the said company.

As at December 31, 1970, the Company had purchased 7,000 shares for an aggregate consideration of $7,000 and advanced $1,000,000 (U.S.), which amount is carried in the accompanying balance sheet at the equivalent rate of exchange in effect at the time of the advances.

4. PROPERTY, PLANT AND EQUIPMENT:

	1970		1969	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Developed oil and gas rights	$ 5,458,444	$1,351,282	$ 4,211,042	$1,129,604
Undeveloped oil and gas rights	928,794	—	1,185,960	—
Lease and well equipment and related facilities	347,495	296,892	326,607	283,828
Pipelines and gathering systems	8,119,554	3,219,936	7,550,501	2,886,892
Undeveloped mining claims	120,509	—	102,175	—
Land	78,983	—	78,983	—
Office building	679,721	344,702	679,721	327,070
	$15,733,500	$5,212,812	$14,134,989	$4,627,394

5. LONG-TERM DEBT:

	1970		1969	
	Due Within One Year	Long-Term Portion	Due Within One Year	Long-Term Portion
6% Series A Secured Notes maturing October 1, 1979	$225,000	$2,530,000	$225,000	$2,755,000
5½% Series B Secured Notes ($2,542,500 U.S., 1969 $2,750,000 U.S.) maturing October 1, 1979	209,640	2,507,493	224,100	2,730,431
6% Mortgage, repayable in quarterly instalments of $5,000 plus interest maturing March 1, 1977	20,000	105,000	20,000	125,000
Bank loan	—	2,000,000	—	1,000,000
5½% Mortgage, due March 5, 1982	—	6,526	—	—
	$454,640	$7,149,019	$469,100	$6,610,431

The bank loan is secured by $3,000,000 of 6% St. Regis Paper Company convertible notes, due January 1, 1984. Although the loan is subject to call on demand, the agreement requires repayment in December, 1972. The 6% mortgage is secured by the office building.

The Series A and B Notes are secured by a first mortgage on the Company's gas pipeline, its interest in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1971 to 1974 (inclusive)	$225,000	$207,500
1975 to 1978 (inclusive)	250,000	230,000
Balance in 1979	855,000	792,500

These notes may be redeemed prior to maturity at a premium of 4% (Canadian) and 3.66% (U.S.) until October 1, 1971. The premium then decreases .50 of 1% per year on Series A Notes and .46 of 1% on Series B Notes with no premium on redemptions made after October 1, 1978.

The current portion of the Series B Notes represents the Canadian dollar equivalent payable within one year. The long-term portion represents the Canadian dollar equivalent of United States dollars on the date of receipt.

6. INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances in amounts which may exceed the related expenses reflected in its accounts.

Management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While the view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

Undepreciated capital cost remaining to be carried forward and applied against future taxable income at December 31, 1970 is $3,400,000.

The Company provides for deferred income taxes on timing differences between depreciation and capital cost allowances. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of $260,000 ($385,000 in 1969) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $2,442,000 at December 31, 1970.

7. CAPITAL STOCK:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed from the holders on 30 days notice at a premium of 2% of par value (reducing .25 of 1% per year to June 1, 1975) or purchased on the market. At December 31, 1970, requirements to June 1, 1970 had been met and in addition 1,478 shares applicable to June 1, 1971 had been cancelled (2,579 shares were purchased and cancelled in 1970).

8. STOCK OPTIONS:

During the year the Company set up an employee stock option plan and reserved 75,000 common shares pursuant to the plan. Under the plan, the Company granted to certain employees options to purchase 40,000 shares of common stock at $5.61 per share and 7,500 shares at $5.89 per share. These options become exercisable in equal annual amounts on April 30, 1971, 1972, 1973, and lapse on April 30, 1975.

9. AMOUNTS PAID TO DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable in 1970 to the directors and senior officers of the Company amounted to $117,106 ($114,442 in 1969).

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as of December 31, 1970 and the statements of income, retained earnings, capital redemption reserve fund and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1970 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 25, 1971

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



NORTH CANADIAN OILS LIMITED 640 Seventh Avenue Southwest, Calgary 2, Canada

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